

# Louisiana House of Representatives



## Fiscal Briefing

February 17, 2000

Slide Presentation  
Handbook

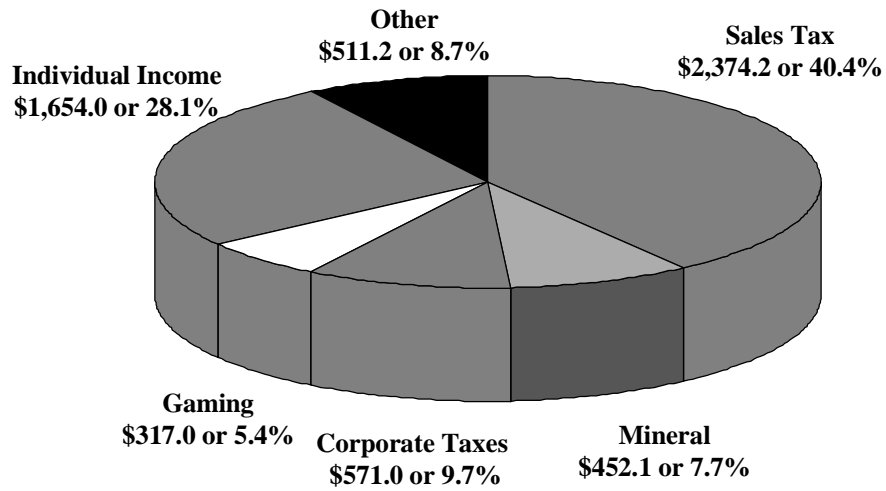
*Charlie DeWitt*  
*Speaker*

*Emile "Peppi" Bruneau*  
*Speaker Pro Tempore*

### State General Fund Revenue Sources

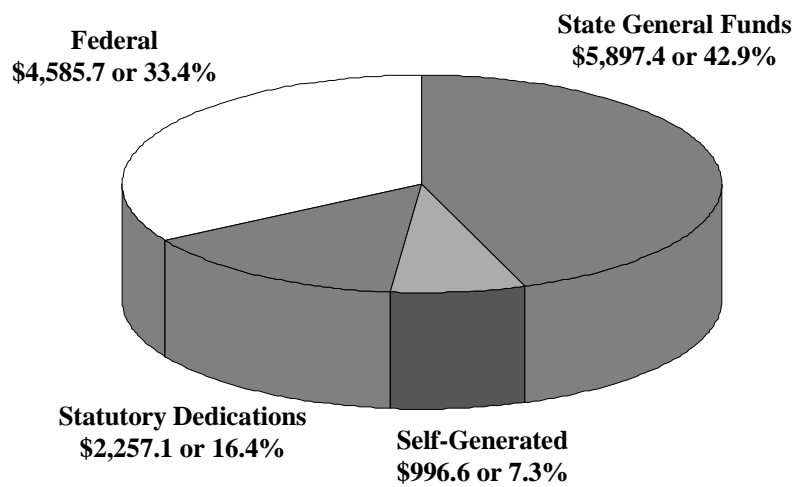
**Total = \$5,879.5**

(In Millions of \$)



### Means of Financing = \$13,737

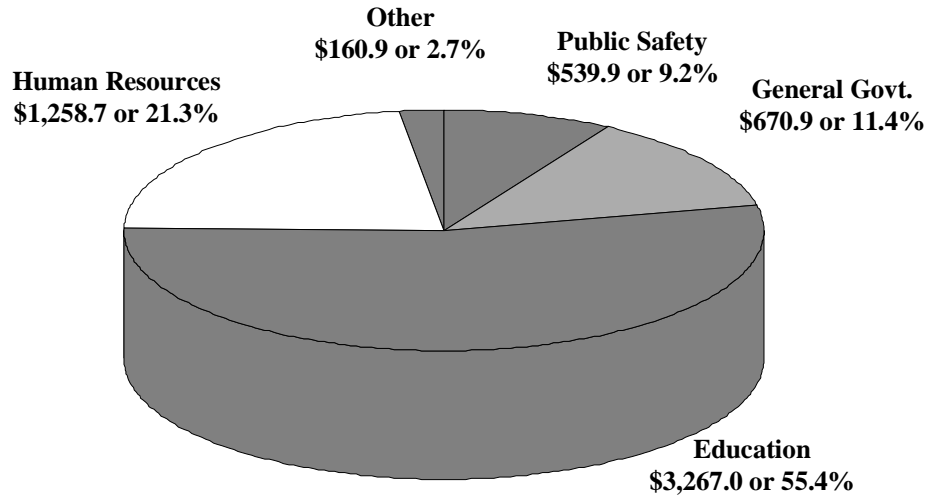
(In Millions of \$)



### State General Fund Appropriations

**Total = \$5,897.4**

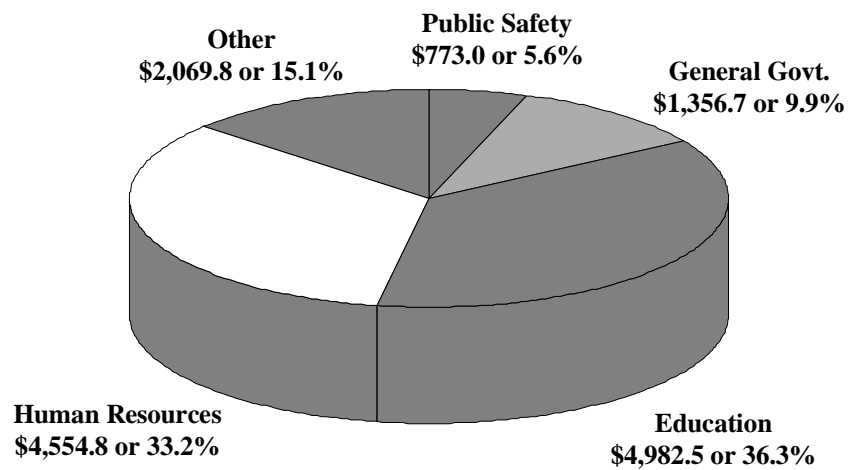
(In Millions of \$)



### Total Appropriations From All MOF

**Total = \$13,737**

(In Millions of \$)



## Current Year Budget Status

### FY 99/00 Revenue Forecast

(in millions)

	<u>9/23/99</u>	<u>12/7/99</u>	<u>Change</u>
<b>SGF</b>	<b>\$ 5,879.5</b>	<b>\$ 5,794.7</b>	<b>(\$ 84.8)</b>
<b>Lottery</b>	<b>99.7</b>	<b>95.5</b>	<b>( 4.2)</b>
<b>LPFA</b>	<b><u>3.4</u></b>	<b><u>3.4</u></b>	<b><u>( 0.0)</u></b>
<b>Total</b>	<b>\$ 5,982.6</b>	<b>\$ 5,893.6</b>	<b>(\$ 89.0)</b>
 <b>Tobacco</b>	 <b>199.0</b>	 <b>184.0</b>	 <b>(\$ 15.0)</b>

## **Why did the forecast decline?**

- **Little or no growth in sales and income tax and sharp drop in corporate income/franchise tax**
  - **Limited employment growth in first six months**
  - **Oil patch just beginning to recover from low prices early in the year**
- **Negative effects offset higher severance tax collections due to rising oil prices**

## **Dealing with FY 99/00 Shortfall**

- **Executive Order Cuts of \$50 million**
- **Savings in existing appropriations, primarily:**
  - **MFP (\$33 million)**
  - **TOPS (\$14 million)**

## Minimum Foundation Program

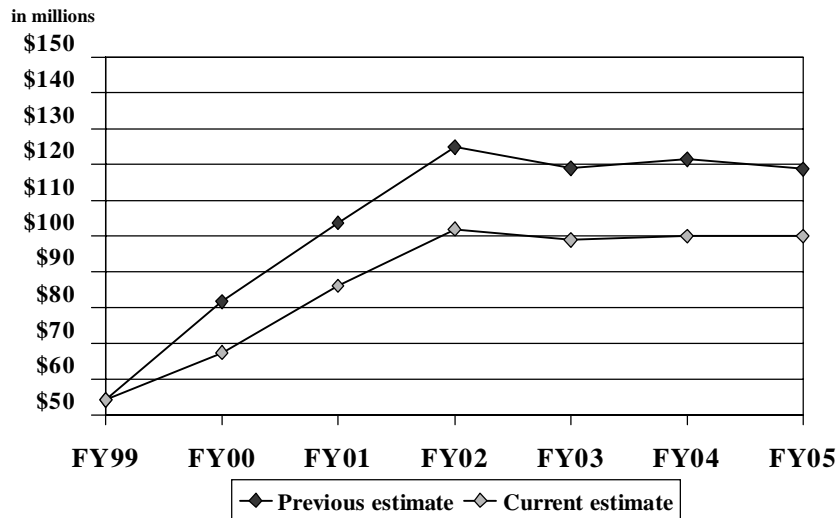
	<u>Oct 96</u>	<u>Oct 97</u>	<u>Oct 98</u>	<u>Oct 99</u>
Students	777,570	765,383	753,722	740,006
Change		(12,187)	(11,661)	(13,716)

- **Loss of over 37,000 students in three years**
  - about 5,000 of loss due to transfer out of Bossier Parish Community College and SSD#2 students

## TOPS

- **\$81 million appropriated for 34,000 awards**
- **Current projection is about 28,900 awards costing \$67 million due to:**
  - fewer students qualifying than anticipated
  - lower acceptance and retention rates

## TOPS Cost



## Executive Order Cuts

(in millions)

<b>DHH</b>	<b>\$ 22.5</b>
<b>Executive Dept.</b>	<b>5.1</b>
<b>Dept. of Education</b>	<b>4.4</b>
<b>Public Safety</b>	<b>3.4</b>
<b>Dept. of Revenue</b>	<b>3.0</b>
<b>Dept. of Social Services</b>	<b>2.1</b>
<b>Dept. of Agriculture</b>	<b>2.0</b>
<b>All Other</b>	<b>7.6</b>

## **Medicaid**

- **Revenue Problem**
  - **Executive Order cuts of \$22.5 million in State funds (70% allocated to Medicaid)**
- **Expenditure Problem**
  - **Projected Medicaid provider payments exceed appropriated level by \$126 million in total funds**

## **Medicaid**

- **Executive Order cuts**
  - **70% of DHH cut allocated to Medicaid**
  - **Results in total \$52.5 million cut in Medicaid**
- **Reductions include:**
  - **Hospital payments (length of stay standards)**
  - **Uncompensated care payments**
  - **New Programs - TEFRA, Assisted Living and Nurse Home Visit Program**



## **Medicaid**

- **Medicaid overspending of \$126.4 million**
  - **Reductions include:**
    - Rate reductions for hospitals, nursing homes, ICF/MR homes
    - Pharmacy and physician payment reductions
    - Service eliminations (Private substance abuse clinics, chiropractic, and adult dental)
    - Eliminate optional pharmacy program (\$67 million)
      - to be avoided through use of \$20 million in reserve funds

## **Medicaid**

- **Total Medicaid reductions of almost \$180 million in the current year**
- **About 5% of Medicaid budget**
- **Impact effectively doubled because only one-half of the year remains**

## **Current FY 99-00 Budget Status**

(in millions)

<b>December budget status</b>	<b>\$ 1.4</b>
<b>Decline in forecast</b>	<b>( 89.0)</b>
<b>Executive Order Cuts</b>	<b>50.0</b>
<b>Other Savings</b>	<b>49.7</b>
<b>FY 98-99 Balance</b>	<b><u>( 26.5)</u></b>
<b>Current Balance</b>	<b>(\$ 14.4)</b>
<b>Revised Forecast (2/17/00)</b>	<b>\$15.0</b>

## **Budget Stabilization Fund**

- **“Rainy Day” Fund deposits total \$57 million**

<b>\$23.6 million</b>	<b>Balance on 6/30/99 from</b>
	<b>FY 98-99 surplus &amp; interest</b>
<b>\$ 1.1 million</b>	<b>LPFA transfer</b>
<b>\$10.0 million</b>	<b>Tobacco Settlement funds</b>
<b>\$20.3 million</b>	<b>Casino funds</b>
<b>\$ 2.3 million</b>	<b>Projected Interest</b>

## FY 00-01 Projected Budget

### Five Year Base Line Projection (as of January 21, 2000)

	<u>FY00</u>	<u>FY01</u>	<u>FY02</u>	<u>FY03</u>	<u>FY04</u>
<b>Revenues</b>	<b>5,930</b>	<b>5,673</b>	<b>5,917</b>	<b>6,145</b>	<b>6,356</b>
<b>Expenditures</b>	<b>6,018</b>	<b>6,540</b>	<b>6,797</b>	<b>7,022</b>	<b>7,185</b>
<b>Adjustments</b>	<b><u>73</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>0</u></b>
<b>Balance</b>	<b>(14)</b>	<b>(867)</b>	<b>(880)</b>	<b>(877)</b>	<b>(829)</b>

## **Five Year Base Line Projection**

- **Required by law as a financial planning tool**
- **Based on “Continuation Budget” necessary to carry on all existing programs and functions in the next year at current service levels**
- **Based on long-range forecast adopted by Revenue Estimating Conference (excludes expiring 3¢ exemption)**

## **Five Year Base Line Projection**

- |                           |                                 |
|---------------------------|---------------------------------|
| • <b>What’s included:</b> | • <b>What’s not included:</b>   |
| – Annualizations          | – New and expanded programs     |
| – Workload adjustments    | – Impact of mid-year reductions |
| – Inflation               |                                 |

## **FY 00-01 Projected Budget**

**Base Line Projection Shortfall (\$ 867)**

**Continuation of 3¢ Sales Tax**

**Exemption Suspension                      327**

**Remaining Shortfall                      (\$ 540)**

## **FY 00-01 Projected Budget**

- **Administration has now discussed an additional \$90 million in funding needs**
  - **\$10 million additional for charter schools could be a continuation adjustment**
  - **The remainder are other items the administration feels must be funded**

## FY 00-01 Projected Budget

- The projected shortfall of \$540 million already assumes renewal of the 3¢ exemption suspension!!

## FY 00-01 Projected Budget

- Don't do this---

	<del>\$ 540 million shortfall</del>
<i>Less</i>	<del>( 320 million 3¢ renewal</del>
<i>Equals</i>	<del>\$ 213 million problem</del>

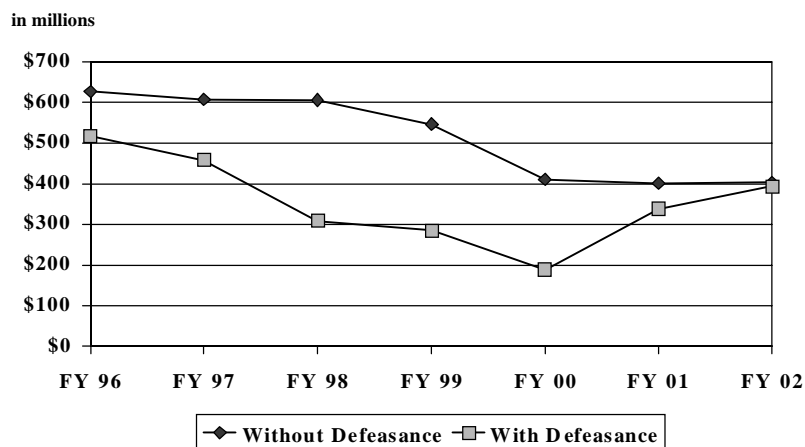
- The money's already been counted !!

## Major Components of FY 00-01 Projected Shortfall

(in millions)

<b>Debt Service</b>	<b>\$152</b>
<b>Medicaid</b>	<b>117</b>
<b>MFP</b>	<b>31</b>
<b>TOPS</b>	<b>4</b>

## Impact of Defeasance Actions



## Minimum Foundation Program

- School systems will receive \$63 million in new state dollars in FY00-01 under existing formula
- Continuation increase of \$31 million is based on FY99-00 appropriated level which exceeds requirement by \$33 million

## TOPS

	<u>FY 99-00</u>	<u>FY 00-01</u>
Cost	\$67 million	\$86 million
Awards	28,876	36,929

- Continuation increase of \$4 million is based on FY99-00 appropriated level which exceeds requirement by \$14 million



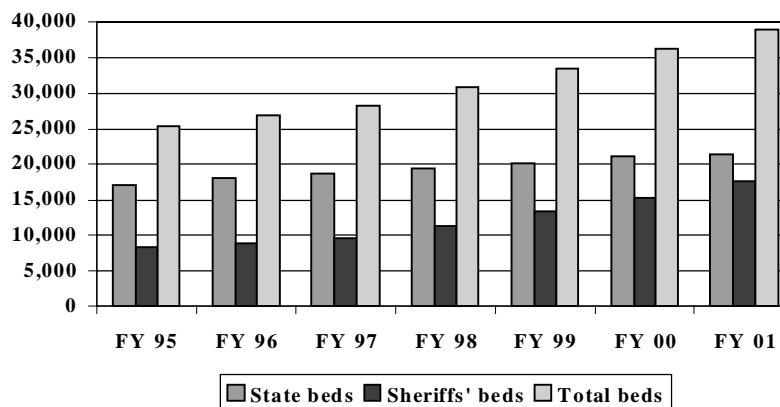
## Major Components of FY 00-01 Projected Shortfall

(in millions)

### Corrections:

- Prison bed expansion	7
- Sheriffs Housing of State Inmates	19
Higher Education Formula	35
Tax refunds (Act 690)	13

## Corrections Inmate Growth



## **Major Components of FY 00-01 Projected Shortfall**

	(in millions)
<b>Inflation/Merit Increases</b>	<b>\$ 61</b>
<b>Workload Adjustments</b>	<b>7</b>
<b>Risk Management</b>	<b>28</b>
<b>Acquisitions Net Increase</b>	<b>11</b>
<b>Capital Outlay cash projects</b>	<b>31</b>

## **How can the shortfall be fixed?**

- **First step - identify budget reductions**
  - **Executive budget will not fund entire continuation budget**
  - **Impact of Current Year reductions is not included in shortfall calculation**

## **How can the shortfall be fixed?**

- **Probable reductions from continuation**
  - **Inflation/Merit**
  - **Acquisitions**
  - **Capital Outlay cash projects**
  - **Risk Management increase**
  - **Higher Education formula increase**
  - **Continuation of Current Year cuts**

## **How can the shortfall be fixed?**

- **Across-the-board cuts affect all programs regardless of merit or effectiveness**
- **Substantial cuts should be made by identifying programs that are:**
  - **not essential state services**
  - **not justified by program performance**

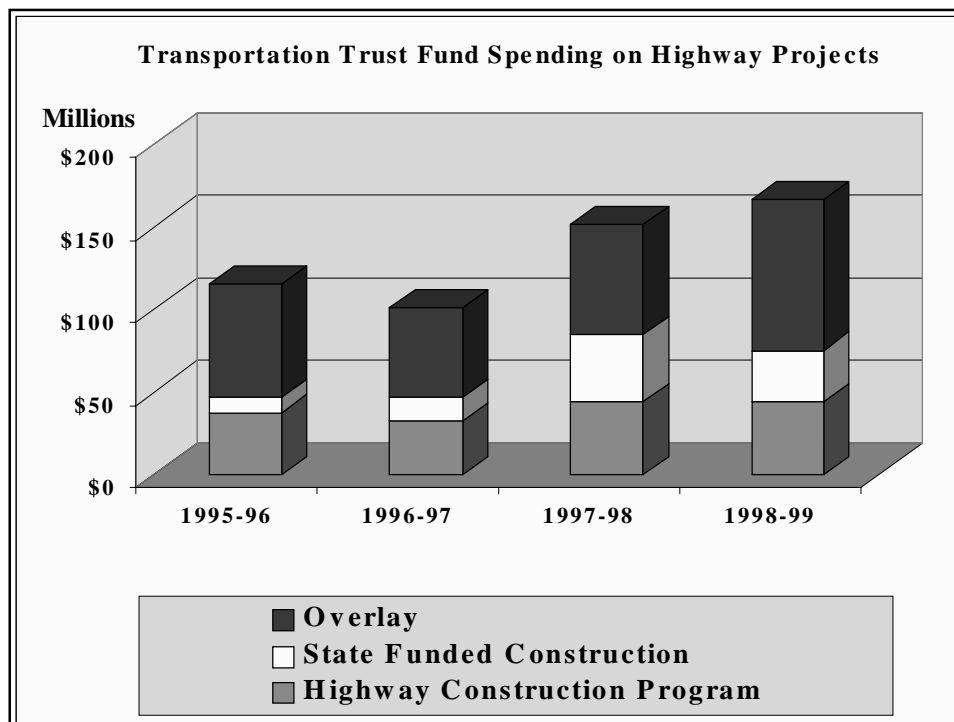
## **How can the shortfall be fixed?**

- **Extent of cuts will depend on reaching consensus to implement program reductions and eliminations**
- **Budget is required to be balanced**
- **Must be accomplished through cuts and/or additional revenues**

## **Other Funding Issues**

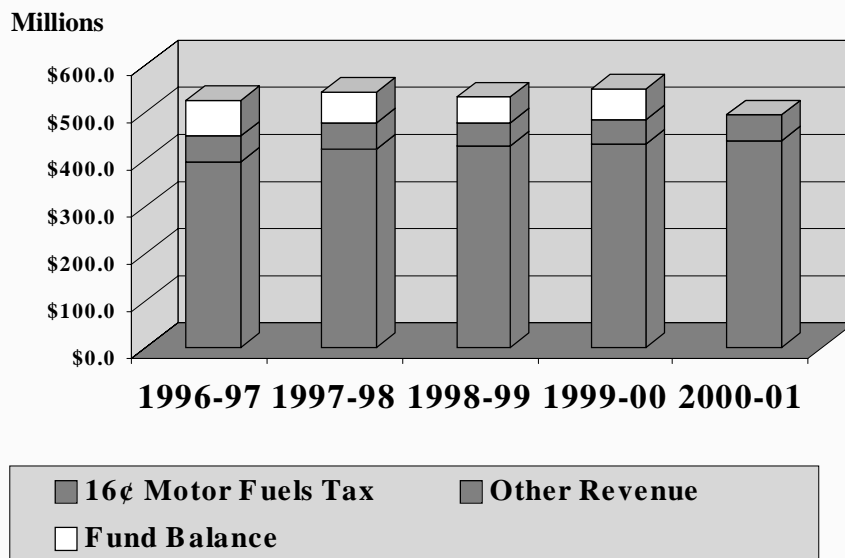
- **Not included in shortfall calculation**
  - **Teacher/Faculty Pay Raise**
  - **State Employee Pay Raise**
  - **Group Benefits funding**
  - **Correctional Officers Pay**
  - **Transportation Funding**

# Transportation Trust Fund Revenue and Highway Project Spending



- After a somewhat slow start during the first three years of the Foster Administration, DOTD has made substantial progress in terms of spending on Highway Projects.
- Project spending has increased from less than \$100 million to more than \$150 million last year. The prospects for 1999-00 indicate that spending will continue to increase.
- Part of this spending increase has been due to the increased emphasis on overlay. Overlay projects require relatively little engineering work, and the contracts can be let and completed quickly. In fact, it is in the area of overlay that DOTD has made the most progress in terms of number of projects completed.

### Transportation Trust Fund Sources



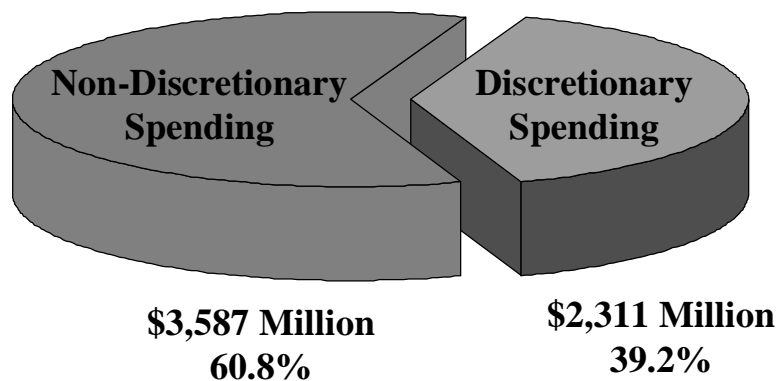
- Since the beginning of Governor Foster's first term, the TTF has had fund balances of \$55 to \$75 million that were available for highway projects and expansion of DOTD operations and maintenance activity. However, this balance will be substantially depleted by the end of 1999-00.
- Without the benefit of spending from fund balances, TTF spending must decline by an estimated \$54 million, or by 10% of current year spending.

## **Appropriations With TTF Funding**

- **DOTD Maintenance and Operations**
- **Highway Priority Program**
- **Port Priority Program**
- **Flood Control Program**
- **State Police**
- **Parish Transportation Fund**

- Appropriations affected by this decline in TTF Funding include:
  - DOTD Maintenance and Operations
  - Highway Priority Program
  - Port Priority Program
  - Flood Control Program
  - State Police
  - Parish Transportation Fund
- It is likely that a significant portion of this reduction will occur in state funded construction projects, including some overlay, and small maintenance projects, since these do not involve federal matching funds.
- However, because of the time delays between the approval of projects, letting a contract and spending money to pay for it, it may take as much as a year for the decline in TTF revenue starts to have much impact on the number of projects let and completed.

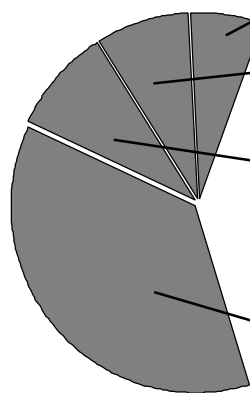
**1999-2000 FY State General Fund  
Discretionary/Non-Discretionary Expenditures**





## Major Non-Discretionary Expenditures 1999-2000 FY

**Non-Discretionary  
SGF Spending  
\$3,587 Million  
60.8%**



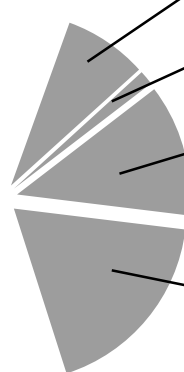
### Non-Discretionary Detail

(In Millions of \$)

<b>General Govt</b>	<b>\$375</b>	<b>(10.5%)</b>
•Non-Appropriated Req		
•Legislative/Judicial Approps		
<b>Corrections &amp; PS</b>	<b>\$456</b>	<b>(12.7%)</b>
•Incarceration at Facilities		
•Sheriff's Housing of Inmates		
•OYD - Contract Services		
<b>Health &amp; SocSev</b>	<b>\$544</b>	<b>(15.1%)</b>
•Med Vendor		
•Long-term Care, Physician Services,		
•In-patient, Out-patient Care, Pharmacy		
•DSS - FITAP, Child Support & Child Care,		
Foster Care		
<b>Education</b>	<b>\$2,212</b>	<b>(61.7%)</b>
•MFP		

## Major Discretionary Expenditures 1999-2000 FY

**Discretionary  
SGF Spending  
\$2,311 Million  
39.2%**



### Discretionary Detail

(In Millions of \$)

<b>General Govt</b>	<b>\$457</b>	<b>(19.8%)</b>
•Exec Dept, Eco Dev, CRT, & Revenue		
•Elected Officials		
<b>Corrections &amp; PS</b>	<b>\$84</b>	<b>(3.6%)</b>
•Corrections - OMF, Probation & Parole		
•Public Safety Services		
<b>Health &amp; SocSev</b>	<b>\$715</b>	<b>(30.9%)</b>
•Med Vendor		
•Admin, ICF-MR, OCDD		
•MR/DD Waiver, Pharmacy		
•OPH, OMH, OMR		
•DSS - Family Support (Client Services) &		
Rehab Services		
<b>Education</b>	<b>\$1,055</b>	<b>(45.7%)</b>
•Higher Education		
•Special Schools		
•Dept of Ed		

## **SGF Absorbed Costs**

- Departments and agencies have absorbed costs associated with inflation and merit increases since the early 90s
- State-wide, such costs have averaged between \$50 to \$60 million per year
- Cumulative impact is to force reduction of expenditures in other areas to accommodate such costs

## **State Debt**

- **New debt sales limited to \$200 million each year since FY93/94**
- **Annual debt service in FY99/00 is \$188 million, down from \$720 million in FY93/94**
- **Debt service will increase sharply to an estimated \$338 million in FY00/01 as defeasance savings end**

## Capital Outlay

(In Millions of \$)

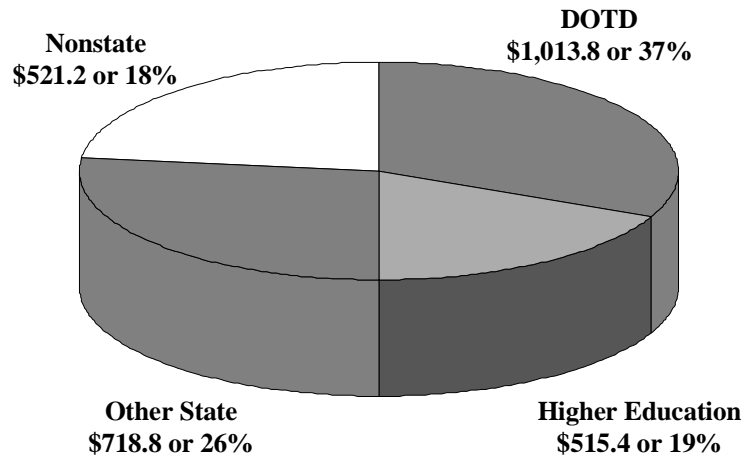
\$ 20.3	FY 97/98 Surplus
11.2	State General Fund
451.0	Federal Funds
273.4	TTF and TIMED Cash
91.0	Other Stat Ded, Self-Gen, Reappropriated Cash and IAT
292.1	Revenue Bonds
22.3	Capital Complex Master Plan Fund
39.0	Tobacco Settlement Funds
<b><u>1,200.3</u></b>	<b><u>Total Cash</u></b>

## Capital Outlay

(In Millions of \$)

716.6	Priorities 1 and 2
212.4	Priorities 3 and 4
618.0	Priority 5
<b><u>1,547.0</u></b>	<b><u>Total Bonds</u></b>
21.8	NRP/RBP (previously sold proceeds and prepayment of reimbursement contracts)
<b><u>\$2,769.1</u></b>	<b><u>Grand Total</u></b>

### Capital Outlay by Expenditure Area (In Millions of \$)



### Capital Outlay (In Millions of \$)

<b>\$243</b>	<b>Priority 2 Funding HB 2</b>
<b>\$90</b>	<b>Priority 2 Cash Lines of Credit Approved by Bond Commission</b>
<b>\$ 153</b>	<b>Priority 2 unfunded balance</b>

## **Capital Outlay**

(In Millions of \$)

- \$ 618     Priority 5 Funding HB 2**
- \$ 219     Priority 5 Non Cash Lines of Credit  
Approved by Bond Commission**
- \$ 150     Projected Priority 1 Reauthorizations for  
FY00/01 (out of \$200 million limit)**

## **Tobacco Settlement Revenues**

- Estimated at \$4 billion over 25 years**
- Payments in perpetuity**
- About \$150 million per year**

## **Tobacco Settlement Revenues**

- **\$199 million anticipated in the current year**
  - **Recently reduced to \$184 million**
  - **\$39.7 million of this deemed nonrecurring**
- **\$9.95 million for Budget Stabilization Fund**
- **Remaining \$188 million appropriated primarily for health and education purposes (\$60 million for one-time expenditures)**
  - **Recently reduced to \$174 million**

## **Tobacco Settlement Revenues**

### **Use in current budget includes:**

<b>\$ 88.3</b>	<b>Medicaid Program</b>
<b>13.2</b>	<b>LaCHIP (children's health insurance)</b>
<b>26.9</b>	<b>Health Care Sciences Initiatives</b>
<b>10.0</b>	<b>Endowed Chairs and Professorships *</b>
<b>14.0</b>	<b>K-12 Classroom Technology</b>
<b>3.7</b>	<b>Mental Health Clinics restoration</b>
<b>4.2</b>	<b>School-based Health Clinics *</b>
<b>1.5</b>	<b>Starting Points Preschool match *</b>
<b>3.0</b>	<b>Smoking Cessation Programs</b>

## **Dedication of Revenues**

### **Millennium Trust and Louisiana Fund**

- **75% of monies to Millennium Trust, phased in**
  - **For each of the first three years, 10% extra is available through the Trust for local school districts**
- **Remaining monies dedicated to Louisiana Fund**
- **Amount in trust may be increased with 2/3 vote**

**Millennium Trust**  
**is composed of three funds...**  
**1/3 of trust earnings for each:**

- **TOPS Fund**
- **Health Excellence Fund**
- **Education Excellence Fund**

## **TOPS Fund**

- **Available only for support of TOPS scholarship program**
- **State General Fund support will still be required for TOPS**

## **Health Excellence Fund**

- **Initiatives for development of Louisiana's children**
- **Research grants for innovation in advanced health care sciences, through a Board of Regents program**
- **Chronic disease management, through the LSU Health Sciences Center, including charity hospitals**



## **Education Excellence Fund**

- **15% allocated to approved nonpublic schools**
- **Special Schools - \$75,000 plus average per pupil amount**
- **Independent/alternative schools - average per pupil amount**
- **Remainder distributed to local school districts as follows:**
  - **FY 00/01 through FY 06/07**
    - **30% of monies divided equally among districts**
    - **70% of monies divided in same proportion as MFP funding**
  - **FY 07/08 and thereafter**
    - **100% of monies distributed pro rata based on student population**

## **Louisiana Fund**

- **Enhancements in health and education of children**
- **Direct health care for tobacco-related illnesses (limited)**
- **Initiatives in health care**
  - **Research grants in advanced health care sciences**
  - **Disease management**
  - **Capital outlay for state health facilities**
- **Initiatives to reduce tobacco-related injury and death**

## **Appropriations**

- **What monies are available for annual appropriation?**

**The investment earnings on the Trust plus all monies in the Louisiana Fund are available**

- **Investment earnings are subject to reserve of an amount to preserve the fund balance against inflation**

## **Millennium Leverage Fund**

- **May be authorized with 2/3 vote of legislature**
- **State revenue bonds secured by Leverage Fund**
- **Proceeds used as provided in Health, Education, TOPS and Louisiana Funds**

## **Tobacco Settlement Revenues**

### **Projection of Monies Available for Appropriation** (in millions of \$)

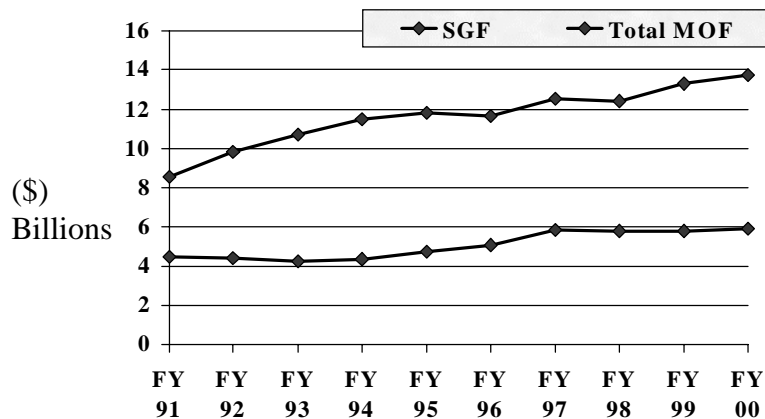
	<b><u>Education Fund</u></b>	<b><u>Health Fund</u></b>	<b><u>TOPS Fund</u></b>	<b><u>Louisiana Fund</u></b>
<b>FY 01</b>	<b>13.5</b>	<b>0.2</b>	<b>0.2</b>	<b>59.6</b>
<b>FY 02</b>	<b>16.5</b>	<b>1.1</b>	<b>1.1</b>	<b>46.4</b>
<b>FY 03</b>	<b>18.0</b>	<b>2.7</b>	<b>2.7</b>	<b>23.0</b>
<b>FY 04</b>	<b>5.0</b>	<b>5.0</b>	<b>5.0</b>	<b>33.2</b>
<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>FY 10</b>	<b>18.3</b>	<b>18.3</b>	<b>18.3</b>	<b>39.3</b>
<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>FY 20</b>	<b>47.1</b>	<b>47.1</b>	<b>47.1</b>	<b>37.7</b>

## **“Sale” of settlement?**

- **Tobacco Settlement Payment Options Task Force, per executive order**
- **Asset securitization proposals**
  - **Would require legislation**
- **Eliminates most uncertainty about the revenue stream in the future**

## Selected History Major State Expenditures

### Total State Budget: Last 10 Years



**61% increase in total financing**

**31% increase in state general fund**

## State Spending Growth Last Five Years

- Since FY96 the state operating budget has grown by 18%... the growth in inflation over this time period was 9.3%
- State general fund expenditures have increased by \$807 million

## Departments representing majority of state general fund spending

	<u>FY96</u>	<u>FY00</u>
K-12 Education	40%	42%
Higher Education	13%	15%
Corrections	8%	10%
Health and Hospitals	<u>18%</u>	<u>19%</u>
Combined portion of state general fund	79%	86%

## **Significant Enhancements in SGF Spending: Last Five Years**

### **K-12 Education**

	<u><b>Increase</b></u>
<b>Teacher and certified staff pay</b>	<b>\$ 213 M</b>
<b>Support personnel pay</b>	<b>\$ 15 M</b>
<b>MFP growth w/out pay raises</b>	<b>\$ 133 M</b>
<b>K-3 Reading &amp; Math</b>	<b>\$ 16 M</b>
<b>School &amp; District Accountability</b>	<b>\$ 16 M</b>
<b>TOPS</b>	<b>\$ 50 M</b>

## **Significant Enhancements in SGF Spending: Last Five Years**

### **Higher Education**

	<u><b>Increase</b></u>
<b>Faculty pay</b>	<b>\$ 78 M</b>
<b>Formula funding</b>	<b>\$ 46 M</b>
<b>Three new community colleges</b>	<b>\$ 9 M</b>

## **Significant Enhancements in SGF Spending: Last Five Years**

### **Corrections and Public Safety**

	<u><b>Increase</b></u>
<b>New state prison beds</b>	<b>\$ 71 M</b>
<b>More state inmates in parish jails (includes increase in per diem from \$21 to \$23)</b>	<b>\$ 65 M</b>

## **Significant Enhancements in SGF Spending: Last Five Years**

### **Health and Social Services**

	<u><b>Increase</b></u>
<b>Medicaid program</b>	<b>\$ 153 M</b>
<b>Includes 1,988 new MR/DD waiver slots and implementation of LaCHIP</b>	

## **Significant Enhancements in SGF Spending: Last Five Years**

### **Economic Development**

	<u><b>Increase</b></u>
<b>UNO/Avondale Maritime Technology Center</b>	<b>\$ 7 M</b>
<b>UNO/U.S. Navy Information Technology Center</b>	<b>\$ 15 M</b>

## **Significant Enhancements in SGF Spending: Last Five Years**

### **General Government**

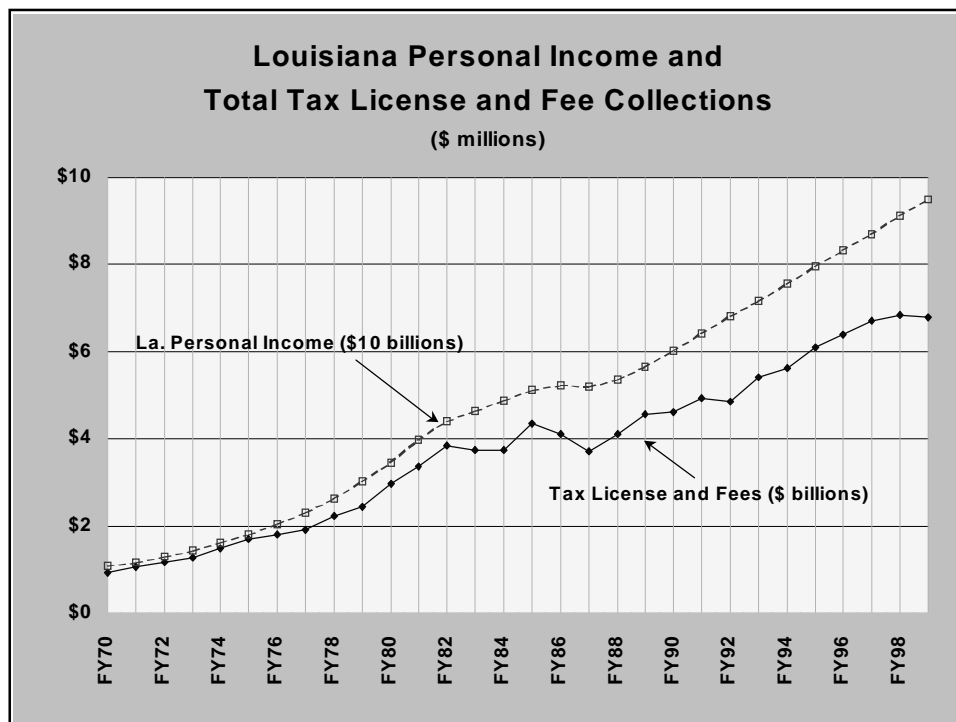
	<u><b>Increase</b></u>
<b>State supplemental pay</b>	<b>\$ 15 M</b>
<b>Boll weevil eradication</b>	<b>\$ 8 M</b>



# State Tax Base & Revenue History

## 1971-1998

(Almost) 30 Years of  
Tax Changes and Revenue Growth  
in Louisiana



- Over the last 29 years, the State's Tax License and Fee Base has exhibited substantial growth in nominal terms, increasing from \$1 billion in 1970 to \$6.8 billion in 1998-99.
- The first down-tick in the center represents the first oil price interruption in 1982-83. Following this, the sharp up-tick correlates with the "Edwards Tax Increases" of 1984. Finally the second sharp dip reflects the Oil bust of 1986-87, when oil prices fell to the \$11/bbl level.
- However, this is only half the story. This relatively smooth curve has not occurred "naturally"-- it has resulted from frequent intervention in the tax structure, as shown on the next two slides.

### **Major Events Affecting Revenues 1971 to 1983**

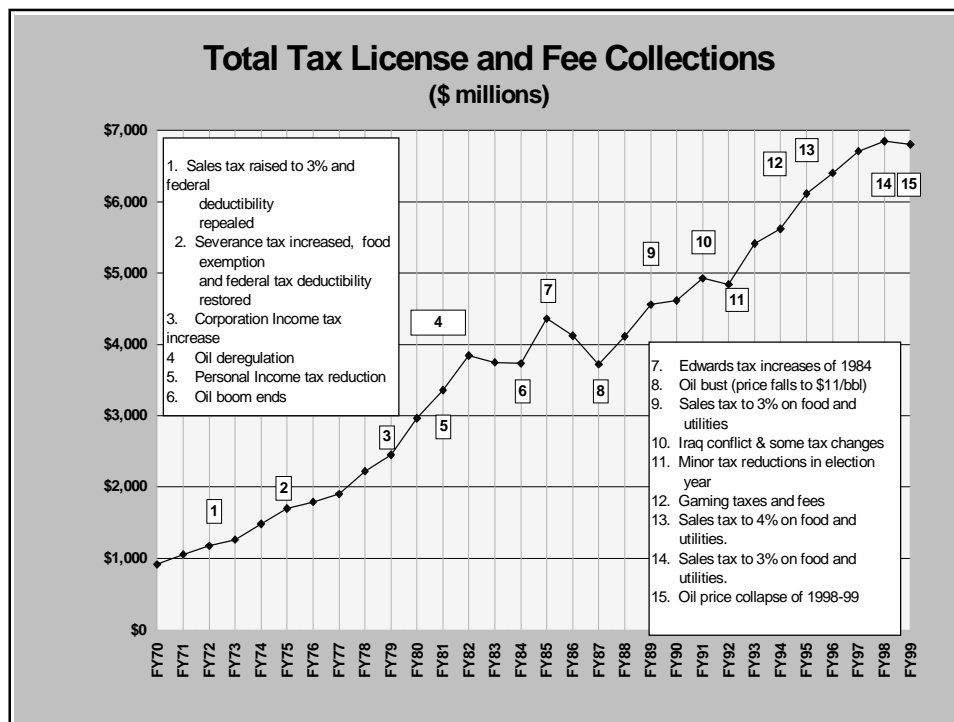
- 1. Sales tax raised to 3% and federal non-deductibility repealed**
- 2. Severance tax increased, food exemption and federal tax deductibility restored**
- 3. Corporation Income tax increase**
- 4. Oil deregulation**
- 5. Personal Income tax reduction**
- 6. Oil boom ends**

- Even before the oil boom of 1979 to 1982, frequent tax changes were typical of the state's fiscal structure. Between 1971 and 1979, there were three major tax changes. Additionally, there were significant tax increases in 1970, even though most of these were repealed in 1971.
- The oil boom brought rapid revenue growth and the opportunity for tax reductions. Most notable of these were the reductions in personal income taxes (largely reinstated later), and the repeal of the state occupational license tax. During this time, there were also several other exemptions or tax breaks enacted.

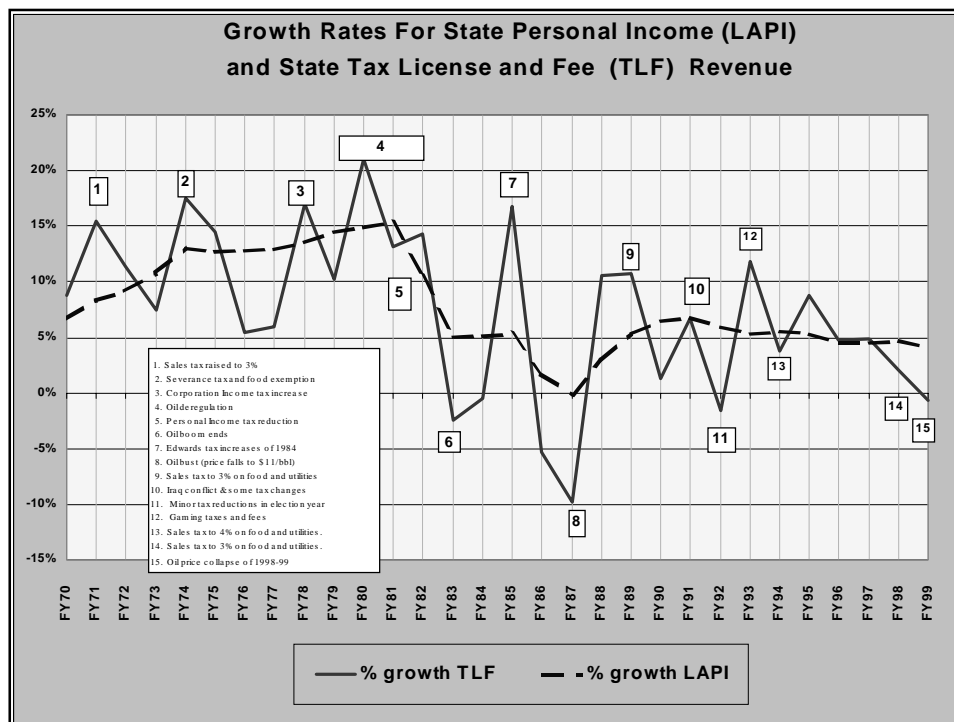
### **Major Events Affecting Revenues 1984 to 1999**

- 7. "Edwards tax increases" of 1984**
- 8. Oil bust (price falls to \$11/bbl)**
- 9. Sales tax to 3% on food and utilities**
- 10. Iraq conflict & some tax changes**
- 11. Minor tax reductions in election year**
- 12. Gaming taxes and fees**
- 13. Sales tax to 4% on food and utilities**
- 14. Sales tax to 3% on food and utilities**
- 15. Oil price collapse of 1998-99**

- By 1982-83, the oil boom had slowed and state revenues declined with the state's economic recession. 1983-84 saw the "take-back" of the recent personal income tax reduction.
- In 1984, the now historic "Edwards Tax Session" convened, and ended with major tax increases in sales tax (3% to 4%), motor fuels (to 16 cents/gallon), insurance premiums taxes, tobacco and others.
- In 1986-87 the full effect of the "oil bust" played havoc with both the state's economy and state tax collections. This resulted in the first tax (at a 1% rate) on food, utilities and other traditionally exempt items, achieved by a one year temporary suspension of exemptions. However, because of the magnitude of the economic recession, this change does not show at all on the graph.
- In 1998-99, the newly elected Governor Roemer started his term with a series of measures, the most significant of which was to increase the tax on exempt items from 1% to 3%. In 1990, the Legislature again enacted tax changes, although these were overshadowed by the temporary increase in oil revenue associated with the Iraq/Middle East War. In 1990-91, the TIMED 4 cent/gallon fuels tax was added, and in 1991-92, there were some minor reductions in taxes.

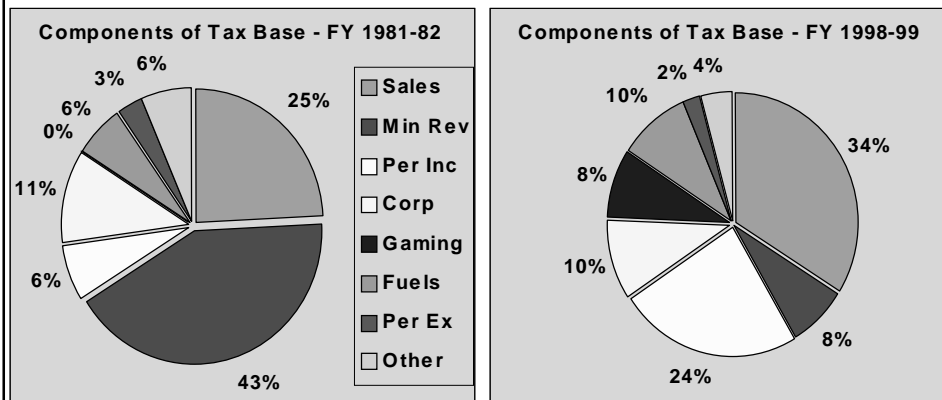


- With these 15 major items annotated on the original chart, it is very clear that our relatively regular revenue growth has not been an inherent feature of the tax structure. Rather, it has been the result of frequent changes in tax policy, usually changes that increase taxes significantly.

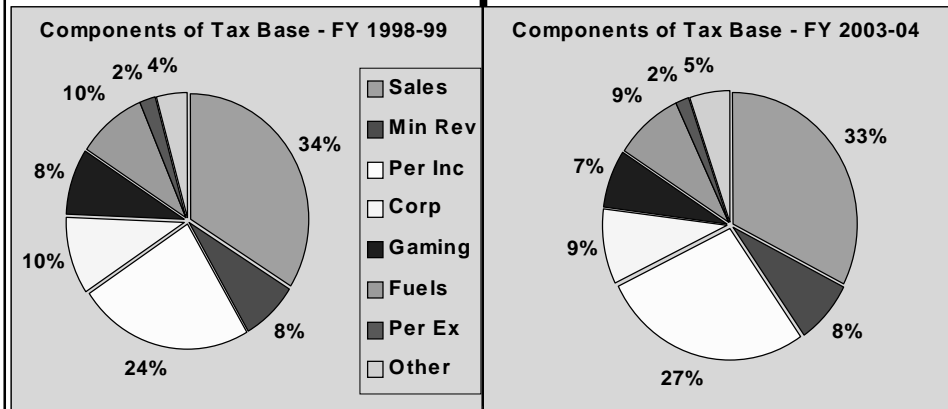


- This chart shows the impact of legislated tax changes even more dramatically.
- The broken line reflects the annual percentage change in Louisiana Personal Income on a nominal basis. (This is not the economy's growth rate, which is much less because it is measured in real dollars).
- The solid line reflects the nominal growth rate in the state's revenue base, or Tax License and Fee Revenue.
- The following take-home ideas are evident in this chart.
  1. The broad trend in state revenue moves with the trend of the state's economy.
  2. The tax structure and revenues are much more volatile than state income growth.
  3. Almost all of the tax increases occurred following a period where revenue did not keep up with state economic activity.
  4. None of the changes were successful in sustaining tax growth at or near the rate of income growth.

## Changing Role of Major Taxes Oil Boom to Today



## Future Changes in the Tax Base

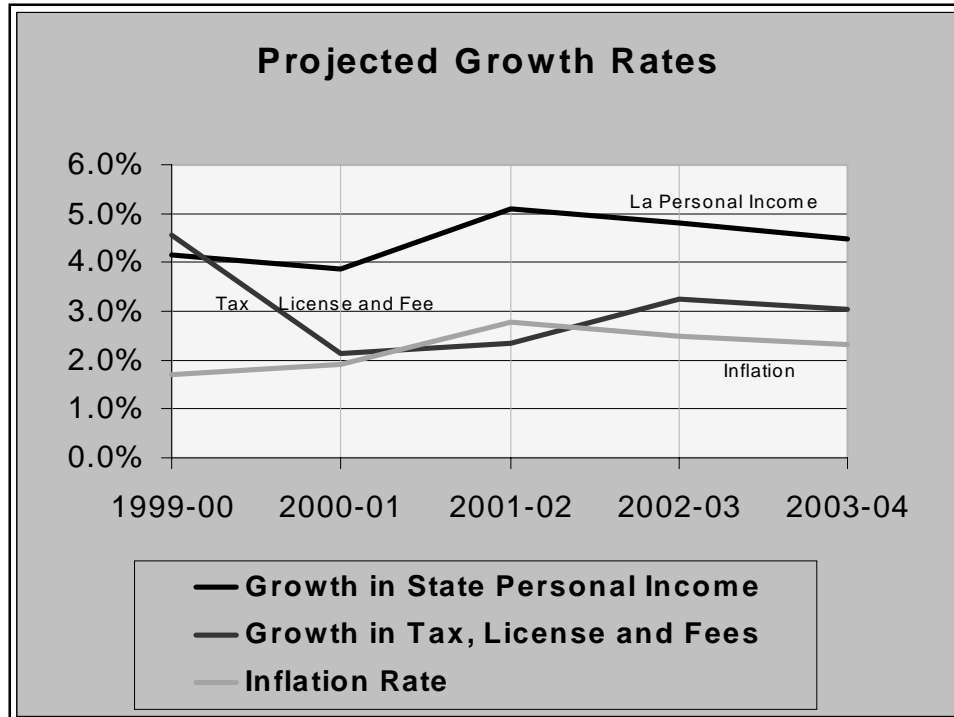


What does the future hold for changes our collections and tax structure?

First, these long range projections show that personal income taxes, which grow faster than the overall tax base, will increase in overall importance, while others, including sales tax, will gradually decline in their relative contributions.

Second, they show that Corporate taxes and fuels taxes will gradually decline in their contribution to Tax, License and Fee Collections.

Third, they show that both mineral revenues or gaming revenues will stay a relatively small share of our total revenue base.



- What does the long range revenue forecast show about the revenue patterns that have been so chronic for the past thirty years?
- It does provide an insight, because it projects the trend collections based on no changes in our existing tax base. This forecast anticipates relatively slow revenue growth of about 2.4 to 3.2 percent annually. This compares to a projected 2.5% average inflation, and a state personal income growth of about 4.8% annually. With revenue growth less than income growth, this suggests that the taxes as a share of state personal income will continue to decline, much as it has done in the past except when there were changes in the tax law.



## REVENUE

The other part of the equation

### Total Statewide Sales Tax Rate

#### State Sales Tax

2.00% (R.S. 47:302)

1.00% (R.S. 47:321)

0.97% (R.S. 47:331)

#### Tourism Promotion District

0.03% FY 2000 14.8 (*estimate*)

Total Rate 4.00%

Total collected FY 2000 2.054 billion (*estimate*)

## Louisiana State Sales Tax

- 1936 - First Imposed
- 1944 - 1% Permanent Sales Tax
- 1948 - Increased to 2%
- 1970 - Increased to 4%

## Louisiana Recovery District

- 1988 - Created; authorized to levy 1% sales tax
- 1988 - State sales tax decreased to 3%
- 1996 - LRD expired
- 1996 - State sales tax increased to 4%

## Suspension of Exemptions

1986	Suspended as to 1% through 6/87
1987	Suspended as to 1% through 6/88
1988	Continued suspension until 6/88
1989	Suspended as to 3% (7/89-12/89)
	Suspended as to 2% (1/90 - 7/90)
1990-1994	Suspended as to 3%
1993-1994	Suspended as to 1% La. Recovery District Tax

## Suspension of Exemptions

(continued)

1994-1996	Suspended as to 3% State Tax and 1% La. Recovery District Tax
1996-1997	Suspended as to 4%
1997-2000	Suspended as to 3%

Suspension expires 7/1/00

## EXEMPTIONS

**Some items or transactions are  
exempt from all 4 cents of sales tax**

**Exemptions are not suspended  
Tax = 0**

### **Exemptions Not Suspended (Items not taxed)**

	<b><u>If taxed at 4¢</u></b>
	(In millions)
<b>Prescription drugs</b>	<b>81</b>
<b>Ships and Ships' supplies</b> <i>(in 98; unable to anticipate for 00)</i>	<b>40</b>
<b>Rubber tire farm equipment</b>	<b>15</b>
<b>Purchase for first use offshore</b> <i>(in 1998; unable to anticipate for 00)</i>	<b>15.5</b>
<b>Diesel fuel or LPG used for farm supplies</b>	<b>9.9</b>
<b>Purchases by commercial fishermen</b>	<b>2.6</b>

## **Exemptions Not Suspended**

(Items not taxed)

### **If taxed at 4¢**

(In millions)

<b>Sales at and admission to nonprofit events</b>	<b>2.5</b>
<b>Pesticides used for agricultural purposes</b>	<b>1.6</b>
<b>Trucks and Trailers used 80% in interstate commerce</b>	<b>1.5</b>
<b>Purchases in domed stadiums owned by the state and in certain other publicly owned facilities</b>	<b>1.2</b>

## **Exemptions Not Suspended**

(Items not taxed)

### **Other Items**

- **Direct sales of farm products by producer**
- **Use tax for farm products consumed by producer**
- **Fertilizer and farm products containers sold by farmers**
- **Wheelchairs**
- **Orthotic and prosthetic devices**

## **Exemptions Not Suspended**

**(Items not taxed)**

- **Seeds used in planting crops**
- **Sales by blind persons**
- **Exemptions under the Enterprise Zone Law**
- **Rail rolling stock used in interstate commerce**

## **Other Items not Taxed**

### **If taxed at 4 cents**

*(in millions)*

- |   |               |
|---|---------------|
| • <b>Food Stamp and W.I.C. Purchases</b>          | <b>\$39.0</b> |
| <i>(Prohibited from taxing by feds)</i>           |               |
| • <b>Out-of-state telephone calls</b>             | <b>23.0</b>   |
| • <b>Purchase of property for lease or rental</b> | <b>17.0</b>   |
| • <b>Isolated or occasional sales</b>             | <b>9.6</b>    |
| • <b>Manufacturers rebates</b>                    | <b>6.0</b>    |

## Other Items not Taxed

*(continued)*

### If taxed at 4 cents

*(in millions)*

- |   |     |
|---|-----|
| • Purchase of electricity<br><i>(by chlor-alkali manufacturers)</i> | 5.7 |
| • Repair services<br><i>(Items to be delivered out-of-state)</i>    | \$3 |
| • Coin-operated vending machines                                    | 3   |
| • Admissions to athletic events                                     | 2   |

## ITEMS NOW TAXED

**Exemptions are suspended from 3¢**

**Item is taxed at 3¢**

**Exempt from 4th penny**

**Big ticket items**

<b>Utilities</b>	<b>\$61 million</b>
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<b>Food</b>	<b>\$45 million</b>
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## **If Suspensions Not Continued**

**Loss to State General Fund  
FY 1999-2000**

**Sales Tax \$ 330 million  
(\$110 million per penny)**

**SALES TAX OPTIONS**



## “PUT THE PENNY BACK ON”

- Tax Items Currently Taxed by Other 3¢

Food	45
Utilities	61
All Others	<u>4</u>
	110

## ADDITION OF 5th PENNY

With exemption

for food and utilities	\$430
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No exemption

for food and utilities	\$540
------------------------	-------

Tax things that are not

taxed by other 4¢	\$588
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- \$48 million per penny

- prescription drugs, etc.

## TELECOMMUNICATIONS

Increase tax on telecommunications to 4¢	\$10
Tax interstate telephone calls	\$23

## Existing Taxes

*(in millions)*

- Increase Rates
  - Sin Taxes
    - Doubling tax on alcohol, beer and cigarettes    \$100
  - Gaming
    - 1% increase in riverboats    \$15
    - 1% increase in video poker    \$5.5

## Existing Taxes

*(in millions)*

- Tax Exemptions, Exclusions, Deductions, Credits

–Inventory Tax Credit	\$149
–CAPCO	\$64
–Percentage Depletion	\$18
–Net Operating Loss	\$92
–Subchapter S Corporations	\$66

## Existing Taxes

*(in millions)*

- Tax Exemptions, Exclusions, Deductions, Credits

–Federal Tax Deductibility	
• Corporate	\$107
• Individual	\$460
–Excess Itemized Deductions	\$146
–Vendors Compensation	
• Sales Tax	\$23

## New Taxes

- Tax on OCS oil and gas
- VAT
- Other

## First Use Tax on Natural Gas

- Tax imposed upon the first use within Louisiana of any natural gas not subject to a severance or production tax by Louisiana or any other state
- Use was defined as the sale, transportation, transfer of possession or control, processing, use in manufacturing or treatment

## Coastal Wetlands Environmental Levy (CWEL)

- Tax on the transportation of oil and gas through Louisiana's wetlands
- Assessed on a per mile basis for the first six miles that oil and gas is transported

## Refinery Tax

- Imposed on total refinery capacity
- Assessed on refining of petroleum products obtained from processing crude oil

## Tax on Use of Hydrocarbon Processing Facilities

- Applies to refining and other processing of crude oil, natural gas and refined petroleum products

## Value Added Tax

- ◆ Value added is the difference between the value of a firm's sales and the value of the purchased inputs used in producing goods sold. Value added can also be equal to the sum of wages and salaries, interest, and profits
  - Types
    - Consumption
    - Income
    - Gross Product
  - Calculation
    - Addition
    - Subtraction

## Value Added Tax

- ◆ Europe

- ◆ Michigan and New Hampshire

Single Business Tax, Business Activities Tax,  
Business Enterprise Tax